



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Thursday 11 December 2014

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE
23rd Meeting 2014, Session 4

CONVENER

*Christina McKelvie (Hamilton, Larkhall and Stonehouse) (SNP)

DEPUTY CONVENER

*Hanzala Malik (Glasgow) (Lab)

COMMITTEE MEMBERS

*Roderick Campbell (North East Fife) (SNP)

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)

*Jamie McGrigor (Highlands and Islands) (Con)

*Alex Rowley (Cowdenbeath) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

David Breckenridge (Scottish Textile and Leather Association)

John Crawford (Scottish Enterprise)

Benny Hartop (Hawick Knitwear Company)

Allan Hogarth (Scottish North American Business Council and the Institute of Directors Scotland)

Scott Johnstone (Scottish Lifesciences Association)

David Williamson (Scotch Whisky Association)

CLERK TO THE COMMITTEE

Katy Orr

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

European and External Relations Committee

Thursday 11 December 2014

[The Convener opened the meeting at 09:00]

Interests

The Convener (Christina McKelvie): Good morning and welcome to the 23rd meeting in 2014 of the European and External Relations Committee. I make the usual request that mobile phones be switched off, please.

I welcome Adam Ingram MSP to the committee. Do you have interests to declare in relation to this committee?

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): I have no relevant interests to declare.

The Convener: Thank you. I formally welcome you and put on the record our thanks to Clare Adamson, who always came to the committee well prepared, as Hanzala Malik was just saying before we started. We wish her well in the new committees of which she is a member.

Decision on Taking Business in Private

09:01

The Convener: Item 2 is to decide whether to take in private item 7, on our work programme, which we usually discuss in private. Do members agree to do that?

Members indicated agreement.

Committee of the Regions

09:01

The Convener: Item 3 is a report from the Committee of the Regions. As members know, two members of the Scottish Parliament are Committee of the Regions representatives: Stewart Maxwell and Patricia Ferguson, who take turn about to compile reports. This report was compiled by Patricia Ferguson and is paper EU/S4/14/23/1. Do members have comments on or queries about the report?

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): The agendas for that committee's meetings were extensive and interesting. I note that they have included a number of subjects that have come up in this committee, including climate and energy, the transatlantic trade and investment partnership, the blue economy—development of the potential of our seas—reconnecting Europe with its citizens, and information and communications technology.

I wonder whether Patricia Ferguson can give us detail about the Committee of the Regions's deliberations and the discussions that took place. We might benefit from that, so perhaps we should seek more information.

The Convener: We can ask about specific items. Are you talking about the issues that are currently of interest to this committee?

Willie Coffey: The issues that occurred to me are those that have come up in this committee. Other members might be interested in other areas. I think that 40-odd items were covered during the two plenary meetings, but we have only the agendas. I wonder what happened during the discussions and whether Patricia Ferguson can give us information about thinking and plans on certain issues. I am sure that that would be of benefit to the committee, if it is possible.

The Convener: I think so.

Roderick Campbell (North East Fife) (SNP): In our papers, under the heading, "Justice and Home Affairs", I note that the European Parliament's

"Women's Rights and Gender Equality Committee called for more EU-level action on gender violence",

and that a new strategy will be published in 2015.

The Council of Europe—which is an arm of the convention, as it were—has adopted the Convention on Preventing and Combating Violence against Women and Domestic Violence, or Istanbul convention. It would be helpful if the committee could have a brief summary of the convention. We could consider the overlap

between what is happening in the European Union and what is happening here on gender violence. It is an interesting area.

The Convener: Are there any other comments on the Committee of the Regions report? We are looking for additional information on decisions and discussions.

Roderick Campbell: I might at some future time want to suggest to the committee that we explore gender violence, but we need more information on it first.

The Convener: Okay. Thank you. Are there any other comments?

Adam Ingram: Does the committee have meetings with Patricia Ferguson and Stewart Maxwell, as representatives on the Committee of the Regions?

The Convener: We invite them to report in person, but on most occasions that has not been practicable for them, because they are on other committees that meet at the same time as this committee. That is why we wanted a report. Willie Coffey made the pertinent point that it is good to have the Committee of the Regions's agenda, but it would also be good to know what contributions were made and what happened.

Adam Ingram: In relation to TTIP, for example, which we are considering, it might have been interesting if one of the members had come along to this committee to give us a flavour of the debate in Europe in the Committee of the Regions. That might inform what we do.

The Convener: We will continue with our inquiry on TTIP well into the new year, so we might be able to do that. We could get that in written evidence or, as you suggest, the members might be able to come to the committee to give us a flavour of what is happening at the Committee of the Regions. That is a good idea.

Adam Ingram: It would be particularly interesting to hear how people are responding to the issue at sub-state level.

The Convener: Yes—the cities and regions.

Hanzala Malik (Glasgow) (Lab): I agree that one of the members of the Committee of the Regions should really be here to assist us so that we can get a flavour, as Adam Ingram rightly pointed out. Next time, perhaps we could extend an invitation to them saying that somebody's presence would be appreciated.

The Convener: We always invite them, but we will impress that point on them to make it clearer.

Hanzala Malik: Please do. It is unreasonable for us to try to extract from the report the actual flavour of what is being done, what difficulties, if

any, the members faced and how we could assist them to maximise the effect of what they do. We want to get something from them, but they could get something from us, so it would be two-way traffic.

The Convener: Okay.

Willie Coffey: I notice that each of the items that has been considered has a rapporteur associated with it. Are we entitled to make contact with those people to ask them for their summation? That would give us more of a European perspective on what took place, which would be helpful for the committee.

The Convener: That is a good idea. We can definitely ask.

Are members happy to circulate the report to relevant parliamentary committees, highlighting some of the points that we have pulled out?

Members indicated agreement.

Hanzala Malik: That reinforces the view that it would be really useful for the members of the Committee of the Regions to attend. Any input that could be added to the report would be a more useful tool for other parliamentary committees than just the bland report, as it is.

The Convener: Okay. Thank you.

Scottish Government Reports

09:08

The Convener: Agenda item 4 is on the usual reports from the Scottish Government on the work that it is doing on EU structural funds, horizon 2020, foreign languages—in which the committee has an interest—and transposition of directives. The relevant paper is EU/S4/14/23/2.

Willie Coffey: In relation to the structural and investment funds, page 5 of the paper tells us that €900 million will come to Scotland over a period. Will we see a breakdown of where the money goes and to what projects it relates? Again, I refer to our friend and colleague Helen Eadie, who raised the issue regularly. I want to get some insight into how the money is disbursed and shared out across various projects in Scotland. Will we be able to see a breakdown?

The Convener: I think that we can ask for that breakdown. Because it has taken such a long time for the structural funds to click into place in some of the programmes, they are just starting now. We can look at that. We get reports every six months now, and I hope that a pattern will emerge, especially as things move on. It is worth keeping on the front burner how much money we are getting, where it is being spent and what the outcomes are.

Alex Rowley (Cowdenbeath) (Lab): When the Cabinet Secretary for Culture, Europe and External Affairs gave evidence on the budget, one of the questions that we put to her was about the various European funds that are coming into Scotland. We were concerned that different parts of Government are involved. The cabinet secretary said that, although it is difficult to clarify what funding comes into Scotland that does not come directly through the Government, she would endeavour to look into that and talk to other Government departments. Are we able to follow that up and see whether any progress has been made? It is an area that we need to look at.

The Convener: You are absolutely right. Before last year, we managed to get a chart of each portfolio, where the money went in, what it was spent on and whether there was any washback or unspent funds. It took a while for that chart to be populated, but it gave us information on where money went and on what type of programmes it was spent. We can ask for that again.

Alex Rowley: The cabinet secretary said that she was keen to see what could be pulled together to give us a better picture. The question is whether local authorities and other organisations are taking advantage of the funding that could be pulled into

Scotland, and the answer seems to be that we do not know. I think that we need to do more on that.

The Convener: One of the questions is about whether local authorities apply in their own right to European funds for money that never comes near the Scottish Government. That information needs to be shared as well. We have spoken to the Convention of Scottish Local Authorities about that in the past, but we can chase the matter up.

Roderick Campbell: I am pleased to see that there has been a 45 per cent increase in the number of modern languages assistants in schools since we started our languages inquiry. That is a positive sign.

The Convener: Are there any other questions about the Scottish Government reports?

Willie Coffey: On foreign language learning, pages 16 and 17 refer to the online glow facility. Members will note that glow

“was successfully transitioned to a new, flexible, cloud-based arrangement”.

Glow is an online learning environment that is full of resources for teachers, pupils and parents alike, and I am pleased to see it being used more widely. It was the subject of some criticism a couple of years ago, so I am pleased that it seems to be developing into the useful tool that we all hoped it would be for kids and teachers.

The Convener: Are there any other questions on the Scottish Government reports?

We are still chasing up the Scottish Government's transposition of the human trafficking directive and are ensuring that we are getting the most up-to-date information on that. I think that an interim report is due from the European Commission. We will keep our eyes open for that, especially because the proposed human trafficking bill seems to be imminent—its status has gone from “soon” to “shortly” in Scottish Government speak, so I hope that it is imminent.

Roderick Campbell: The Justice Committee has planned to take evidence on the bill from stakeholders, so I think that “imminent” is very much the word.

The Convener: Excellent. Thank you for that information. That is the benefit of having a Justice Committee rapporteur on the committee.

“Brussels Bulletin”

09:14

The Convener: Item 5 is the “Brussels Bulletin”. Are there any questions or comments?

Roderick Campbell: In case it had not already been spotted, the comments that I made about gender violence were made in relation to the “Brussels Bulletin” and not the Committee of the Regions report. I should correct that for the record.

The Convener: I did realise that, but I did not want to correct you in mid flow.

Alex Rowley: There was a question about shipping emissions regulations and their impact on Rosyth. From what I have read in the press, I understand that the Scottish Government has successfully negotiated a way forward with the relevant company and Forth Ports. I raised the issue with the minister, so can we follow that up and ask for a report on where that situation is and what the Scottish Government’s position is?

On employment, skills and education, it would be good to get a copy of, or a link to, the speech by the Commissioner for Employment, Social Affairs, Skills and Labour Mobility, and more information on how the growth and investment package and the European social fund relate to us here in Scotland rather than just generally.

It would also be quite good to get the report about informal learning and the Scottish credit and qualifications framework.

The Convener: We have got all that down and can chase it up for you.

Adam Ingram: I was interested in the couple of paragraphs on the Europe-wide energy union, which is obviously particularly relevant to Scotland. There are notions of decarbonisation of the European energy mix and further investment in research and innovation, which is particularly relevant to this week’s announcement about a couple of our wave power companies being in trouble. European state-aid rules were also mentioned in that context. It might therefore be useful to get an indication of how Scotland will play into that from the Scottish Government or whoever is responsible for those subjects.

The Convener: We have got that. Are there any other comments?

Willie Coffey: There is a section on page 4 about creative industries. It has come up at the committee previously that there appear to be opportunities for media companies throughout the European Union, and in Scotland in particular, to exploit initiatives. How are our small and medium-sized enterprises or other organisations that might

have an interest made aware of the opportunities? Is there any way of getting the “Brussels Bulletin” out to a wider audience? I am sure that it is posted online, but signposting of such things is often the key step in helping people to find out anything. I am sure that there are companies that would be interested in the initiatives.

The Convener: The clerk has just reminded me that the last time we talked about this we raised the point directly with organisations. Scotland Europa is obviously limited in terms of the scope that it has for contacting people but this committee can certainly do some of that through the work that it does.

It might just be an issue of signposting, as Willie Coffey said. It is always an issue when we talk about any European funding that comes through Scotland. How do people access it? How do they know that it is there? It is about raising awareness. Scottish Enterprise does a bit of that, as does Scotland Europa, but perhaps it is incumbent on us all to do a bit more to raise awareness.

Willie Coffey: One of the initiatives is about exploiting and preserving cultural heritage throughout Europe. There is bound to be a mountain of material around that that is not digitised or protected for future generations. There are lots of companies in Scotland and throughout the EU that would like to participate in something like that, and finding out that it is possible for them to become involved is a key step. Anything that raises the awareness of companies here in Scotland would be welcome.

The Convener: Skillset—the creative industry’s sector skills council—might be the place to go because it works with lots of individual companies from small ones to large ones.

Hanzala Malik: The “Brussels Bulletin” should be on the Parliament website anyway. I know where Willie Coffey is coming from when he talks about sharing it with industry itself. It might be an idea to share it with Scottish Enterprise, Scottish Natural Heritage and other such organisations. We could share the link and make sure that their websites also carry it. That might be another way of doing it, but we would probably have to have a conversation with those organisations about sharing this type of information in the future. It was a good point to bring up and it is worthy of chasing up.

The Convener: On the first page of the “Brussels Bulletin” is the Juncker investment plan, which states quite categorically that this is not new money but repackaged money. The last time that we discussed it, we thought that it was new money. That is an interesting insight. It also looks like the plan is going to be focused on infrastructure, but it does not really define whether

that would be capital projects or digital infrastructure, for example. Perhaps we should be keeping a close eye on where Mr Juncker is going with his repackaged money and on the fact that the European Investment Bank will take a much bigger interest in the plan. The whole package of matched funding seems to be much more reliant on private investment, which might have an impact on local authorities' and third sector organisations' access to it. We need to keep a weather eye on that and ask for some deeper detail.

Are we happy to leave the "Brussels Bulletin" at that point and to bring it to the attention of relevant committees across the Parliament?

Members *indicated agreement.*

The Convener: Thank you. We will suspend for a few minutes to allow our visitors to take their seats for the round table.

09:22

Meeting suspended.

09:29

On resuming—

Transatlantic Trade and Investment Partnership

The Convener: Agenda item 6 is our second evidence session in our inquiry on the transatlantic trade and investment partnership, commonly known as TTIP. We have a number of guests for our round-table discussion today. I ask people to introduce themselves very briefly and to give us the reasons why their organisation, industry or sector is interested in the topic.

I am Christina McKelvie, the convener of the committee. I would like to get a free flow of information around the table, so keep your eye on me and channel your comments through me. I am good at picking folk up and making sure that everybody gets their say. If you sit too quietly, I will ask you to have your say, as I do not want you to go away thinking that you have not had a decent opportunity to participate. We are keen to get everybody's views on the issue; it is one that the committee and members in general have been lobbied heavily on.

Two weeks ago, we heard evidence from trade unions, the third sector, the World Development Movement, NFU Scotland and similar groups. Now we are looking to see what the trade side has to say.

Hanzala Malik: I am the deputy convener of the committee and an MSP for the Glasgow region.

Scott Johnstone (Scottish Lifesciences Association): I am the chief executive of the Scottish Lifesciences Association.

Adam Ingram: I am the MSP for Carrick, Cumnock and Doon Valley, in Ayrshire.

David Breckenridge (Scottish Textile and Leather Association): I am the chief executive of the Scottish Textile and Leather Association.

Roderick Campbell: I am the MSP for North East Fife.

Benny Hartop (Hawick Knitwear Company): I am the managing director of Hawick Knitwear.

Willie Coffey: I am the MSP for Kilmarnock and Irvine Valley.

John Crawford (Scottish Enterprise): I am the strategy manager at Scottish Enterprise.

Alex Rowley (Cowdenbeath) (Lab): I am the MSP for Cowdenbeath.

David Williamson (Scotch Whisky Association): Good morning. I am the

government and communications director at the Scotch Whisky Association.

Allan Hogarth (Scottish North American Business Council and the Institute of Directors Scotland): I am from the Scottish North American Business Council. This morning, I am also representing the Institute of Directors Scotland.

The Convener: Good morning and welcome. We thank you for the written evidence that we have received, which has helped us to deliberate on the questions that we have for you.

I will open with a general question and ask all of you to comment on it. Can you give the committee an insight into your thoughts on the transatlantic trade and investment partnership and on its benefits and pitfalls?

David Williamson: The Scotch Whisky Association represents 57 member companies, which is about 95 per cent of the Scotch whisky industry. We are internationally oriented businesses, as members will be aware. The United States is our largest export market by value and our second largest by volume. It represents about £1 in every £5 that Scotch whisky earns around the world, so it really matters to us. It also matters to the Scottish economy because Scotch whisky makes up about 20 per cent of all Scottish exports to the United States.

The industry has been following TTIP very closely. Indeed, we have been speaking to the European Commission and the United Kingdom Government about it since before the TTIP negotiations started, to make sure that our priorities are reflected.

It is an interesting negotiation for us because our usual free trade agreement issues—tariffs, taxes and the legal protection of Scotch whisky—are not at stake. We already have a zero tariff in the US, there is a non-discriminatory tax, and Scotch whisky is well protected under federal and international law. For us, the negotiation has come to be about less sexy issues such as behind-the-border issues, technical regulation and regulatory coherence. We are taking the opportunity to set a precedent, if it is at all possible—to get a benchmark in place for future trade negotiations that, frankly, will probably be more commercially significant to us and in which we will face more trade barriers. I am thinking, for example, of the EU free trade agreement with India, which is being considered now.

We can go into some of the detail of our priorities as the meeting goes on, but I also want to stress that, from a whisky industry perspective, this negotiation is not just about the United States. For us, TTIP is a much wider strategic issue. If we get TTIP right and we have an ambitious deal, we will have the opportunity to negotiate ambitious

deals with other trading partners such as India, Vietnam and Japan. Those negotiations are going on at the moment. If we get a gold standard in place, we can apply it elsewhere.

TTIP is already having an impact. We are clear that it was only through the TTIP negotiation starting that we got over the line with the EU-Canada deal on the comprehensive economic and trade agreement—CETA. That has meant that the Mexicans have suddenly become very interested in refreshing their FTA with the EU, because they do not want to get left behind. That is an important emerging market for Scotch whisky. Brazil's market has been teetering on the brink of recession, but Brazil has started to look again at dormant trade negotiations with the EU for the wider Mercosur region.

TTIP is an important deal in relation to exports to the US, with potential commercial benefits through the gold standard that it sets. However, from a wider perspective, it is having an impact on other negotiations that are on-going and could be significant in that standard being set elsewhere.

Allan Hogarth: I back up what David Williamson has said. We have a once-in-a-generation opportunity to reach an agreement. Scotland is a small country that is trying to raise as much income as it can to pay for its public services. Last week, the First Minister outlined the importance of growing the economy, and TTIP provides an opportunity to do that. Small businesses are crying out to break into the US market.

UK businesses pay £1 billion a year in tariffs, but the real prize would be the removal of the duplication of regulations. For example, a soft furnishings company that manufactures cushions or mattresses has to carry out a burn test to satisfy Brussels. It puts together the kit, burns it and proves it to be safe. However, if it wants to export its products to San Francisco, it has to go through the same rigmarole again. I could cite lots of such examples.

If we can tackle regulation, the opportunities for small companies are huge. There is a big appetite out there for that. We have held five roadshows around Scotland, with more than 250 companies coming along to them. Some of the misguided talk by trade unions and non-governmental organisations about TTIP needs to be addressed head on, to be honest.

The Convener: David Breckenridge, do you want to add anything? I understand that your journey here was quite arduous, so I thank you for coming.

David Breckenridge: Let me put it this way: it was an interesting journey.

I will contextualise what TTIP means for our industry and where our industry sits with regard to the United States. Altogether, our industry directly employs just short of 10,000 people. That figure does not include those who are indirectly employed in ancillary industries. We have a combined turnover of about £1 billion, producing gross value added of about £350 million. About £375 million of that turnover comes from exporting. The industry has in place a strategy that takes us beyond 2015, and we are working on a new strategy. We expect the impetus for growth to come through export markets.

Our industry has reached a stage in its evolution at which it is very much at the high added value end of the spectrum. We produce top-quality fabrics, garments, apparel and so on. Typically, our customers are some of the major global brands such as Louis Vuitton and Hermes. Our products go to those customers and are then exported to markets all over the world, primarily from France.

In Scotland, we are very much developing our own brand identity, which will be central to our growth. When we look at certain markets, it is clear where the potential for that growth lies: the far east. Japan, in particular, despite its economic problems, is still a hugely important market for us. Everyone talks about China, which is potentially a huge market, but there is a long way to go in development terms. The United States is the obvious market—it is the biggest luxury goods market in the world by some distance, so it is hugely important to us. There are all sorts of reasons why the US is an attractive market to approach. For example, we have a reasonably common language and there is a long history of understanding what Scottish luxury textile products are about. The made in Scotland brand is hugely important—I will come to that later.

Serious barriers to growth are currently in place, and we hope that an agreement comes. We are very much behind the need for such a transatlantic trade agreement. We are looking at tariffs, in particular. Unfortunately, tariffs are a huge issue for us, unlike for the whisky trade, not least because of the weird and wonderful discrepancies that exist. My colleague Benny Hartop will give details of that later.

The situation is really confused. Some products attract one level of tariff and others attract a much higher or lower level of tariff, which is extremely confusing. Furthermore, there is not a level playing field, because there are countries outwith the EU that have zero tariffs on their goods that go to the United States. We are competing directly with them, but we are competing very much at a disadvantage because those goods usually come from low-cost countries, the tariff rate is zero and

we pay perhaps 14 per cent or more on some goods. That is a serious issue for us.

I mentioned the made in Scotland brand. There is some confusion about that at the moment. I confess that I am not quite clear about how the issue is developing, but there has been a suggestion that, in the negotiations, the American side is insisting on a definition for a country of origin label. For example, it is insisting that, for a made in Scotland label, at least three processes—I think—have to be carried out in Scotland.

On the face of it, that may sound quite sensible, but the reality in textiles is that we purchase a lot of our raw material from outwith the UK and from outwith the EU in some instances—it could be Australian or New Zealand wool—and that has traditionally been the case. We do not have the level of wool production in the UK to meet that demand, and other fibres such as cashmere come from outwith our shores because, despite the weather today, we do not have the extremes of climate for them. A very hot to very cold spectrum of climate is needed to produce cashmere, and we do not have that. Therefore, we often purchase our fibres from outside this country.

If the Americans are going to insist on the three-processes rule, that will perhaps mean that we cannot put a made in Scotland label on our products despite the fact that the entire process other than the purchase of the raw materials has been carried out here. However, we are not sure about that. If anyone is able to clarify the matter for us, that would be hugely useful.

There are other technical barriers, which Allan Hogarth has alluded to and which are serious matters for the industry. Having to employ a broker to ensure that goods are taken through customs in the United States adds a huge cost—it can add around 20 per cent to the cost of products. That comes about because the United States is—it seems to us from the outside—an incredibly bureaucratic country in many ways. That is certainly the case when it comes to customs regulations. Getting our goods into the United States can be a headache.

There are also other issues. Allan Hogarth alluded to testing standards, which are extremely important in textiles. They, too, can be very confusing and costly, and they duplicate what is going on elsewhere. That is a serious issue. Manufacturing and identification codes are another issue. The Americans have one system and we in Europe have another system. We need a degree of harmonisation so that we know that we are talking about the same sort of thing.

Those are the key barriers. They are technical barriers, but they are barriers nonetheless. We have the product and we have the service to go

along with it. The United States presents a fantastic opportunity for us to grow our business there, but we need a level playing field. We should not be competing against low-cost countries that have very favourable tariff rates, which is not helping us at all. We also need to have other technical barriers removed or, at the very least, harmonised. Overall, that is our position.

09:45

Benny Hartop: I will give you some context for my business. We are a big employer in the Borders area—we employ more than 200 people. The textile trade is still a very important part of Scottish industry and the local Borders economy. We currently export about 30 per cent of our products to the USA, which is by far the largest market for us.

At the moment, it is mainly cashmere products that we sell to the States, which attract a 4 per cent duty tariff. That rate is bad enough for a high-value product because it adds considerably to the price for the end customer and it detracts from the volumes that we could potentially sell, but woollen-spun products attract a 16 per cent duty rate, which just kills any opportunity stone dead. That is a real barrier to entry and we must get a level playing field.

Last week, I had in my factory the sourcing director of Brooks Brothers, which buys a large part of its cashmere from us and is keen to expand into woollen-spun products. However, the sourcing director is as aware as I am of the problems that the 16 per cent import duty causes. He is looking at options that include having products knitted in Scotland but finished in Mauritius—one of the duty-free countries that David Breckenridge mentioned—which would lower the cost of importing the products into the States.

The tariffs are holding back development and potential growth in jobs in the local economy, so we must find a way of getting a level playing field.

John Crawford: To build on the points that have been made, the US is the biggest market for Scottish exports—it accounts for 13 per cent of them. The US is also the biggest investor in Scotland—around 40 per cent of investment across the sectors here is from the US—so it is already an incredibly important trading partner for us.

We believe that, across the various sectors, TTIP could contribute to the Scottish Government's objective of increasing economic growth through international competitiveness. We must increase the international competitiveness of Scottish companies and sectors in order to achieve the growth objective. It will be interesting to see how the opportunities, challenges and

implications of TTIP play out across Scotland's sectors.

The Convener: We will get some comments from Scott Johnstone, and then Adam Ingram will ask some questions about the US market.

Scott Johnstone: I will give some brief background information on life sciences for those of you who might get as confused about the term as I do. Life sciences in Scotland spans everything from making penicillin to touch bionics—the bionic hand—to digital health, so it includes ICT applications. The life sciences sector in Scotland is therefore very broad and in total our companies have a turnover of about £3 billion.

The sector is growing: from 2009 to 2012 it grew in employment terms by 15 per cent. We are really keen on life sciences in Scotland and we are very good at it. One of the things that we are very good at is the regulatory affairs part, because quality is in our genes in Scotland and it is something that we promote. Indeed, many US companies have a footprint in Europe here because of our ability to regulate and to have products that will genuinely not cause harm to patients, which I think is something to be proud of.

Many of the regulatory issues that are discussed under TTIP are very important to us. Here in Europe, we regulate to certain standards, but if we want to go to the United States, we regulate to a different set of standards. To be honest, we find that a bit of a pain, but we have been getting on with it for years now.

Many investors will not be interested in investing in you if you go down certain regulatory paths. If, however, you take the friendlier 510(k) equivalence-type regulatory path, investors are more interested. Primarily, the question that investors ask is, "How much of the US market are you going to get with this?" The world is a big place. We have companies that do not deal with the US because of the regulation and they are doing very well, but at the end of the day the US is our big goal. We work very well with the people there, and we see TTIP as a potential step forward in harmonising regulation.

In fact, many US companies see European regulation as less onerous and will therefore try to get their products regulated in Europe before they go back to their home market. There are advantages, in that Europe is slightly ahead of the game as far as regulation is concerned, and we can use TTIP to build on that and get some harmonisation.

Adam Ingram: Thank you very much for that evidence.

We are kind of genetically programmed to believe that free trade is a good thing that helps to

create jobs and the like, but I have seen some negative comments from the United States about the North American free trade agreement. The US was sold NAFTA on the basis that it would lead to a significant increase in jobs and economic activity in the American economy, but the opposite appears to have happened.

You have laid out some of the opportunities that would be available in the American market for Scottish goods such as luxury textiles or, indeed, life sciences, but surely there is another side to the coin, which is the impact of American or North American exports into Scotland and the UK. I wonder whether John Crawford can tell me whether any work has been done on what the net impact on jobs would be if TTIP came to be. By that, I mean the net impact on jobs in Scotland, which is really what the committee is interested in. I have heard one side of the argument; now I would like to hear a bit more about the threats posed by this agreement.

John Crawford: Thank you very much for the question. There will obviously be implications for sectors and companies on both sides. There are opportunities for trading out and making investments, but Scottish products and companies might well face more competition as our market opens up to US products and services. Neither Scottish Enterprise nor Highlands and Islands Enterprise has done any analysis of the net impact on jobs, and we might want to undertake such work as TTIP plays out.

Allan Hogarth: I guess that part of the answer to the question depends on whether your glass is half full or half empty; in my case, it is always half full.

The opportunities are there. There are thousands of companies like Benny Hartop's that are trying to create new export markets and jobs by exporting to the US; in fact, 2 million jobs already co-exist between the US and the UK, and hundreds of big US companies are located here. Morgan Stanley in Glasgow, for example, does a lot of the back-office stuff in financial services. We could sit back and worry about this, but I think that we should be positive and look forward to the trading opportunities that will be created. I accept that it is not a zero-sum game and that some jobs will be created in the US and sold into Scotland; however, we should try to do more to sell into the US.

Adam Ingram: I would be a bit more comfortable if I was not depending on blind faith.

Allan Hogarth: With all due respect, you are not. There have been many other trade agreements across the world. David Breckenridge mentioned the Canada-European trade agreement that comes into place next month. We will see

opportunities arise from that. It is not an unusual step for nations or trading blocks to reach trade agreements. Free trade is proven. Glasgow was built on free trade involving the tobacco lords and all the others, so it is not something that Scotland has not done in the past.

Adam Ingram: We did have such a thing as imperial preference, which might have had something to do with that growth.

Allan Hogarth: I was not suggesting a return to that.

The Convener: I believe that the workforce did not have very many rights either, but that is another story for another day.

David Williamson: Trade liberalisation, the reduction of tariffs and an easier operating environment have been fundamental to the Scotch whisky industry's success over the past 30 to 40 years. There have been a number of World Trade Organization and general agreement on tariffs and trade deals since the second world war and, as a result, the industry has consistently benefited by being able to grow its exports. To give some examples, it is only because those trade disciplines are in place that we have been able to get fairer access to markets such as those in Japan and South America. Some of the trade deals that I alluded to earlier have been beneficial to us.

It is important to stress that, when we are looking at the issue in the widest perspective, we have to understand the picture. At the same time that the EU and the US are considering a trade deal, the US is facing in the opposite direction—it is looking to negotiate a trade deal with its partners around the Pacific rim. To throw in some more letters, at the same time that we are talking about TTIP, the TPP—the transpacific partnership—is being negotiated. The countries involved in that have a lower cost environment than we have in Europe. They include the likes of Chile, Japan, Mexico and Peru, all of which produce high-quality spirits, and my sector has to be alert to that. That is why it is important to make sure that we have the best arrangements in place with the US to promote our trade.

The TPP is one example of an agreement for which the negotiations are just as far advanced as those for TTIP—in fact, they are probably even further advanced—and that will change the dynamic of trade relations with the United States. We need to be alert to that.

There is one other thing that I want to pick up on from David Breckenridge's earlier remarks, which were very interesting. When it comes to the technical side of things, the rules of origin arrangements are notoriously difficult. The negotiation on those is still at a very early stage,

so there is still everything to play for. The spirits industry tries to be proactive in such areas. We have been working with the United States spirits industry and, through it, the USTR—the Office of the United States Trade Representative—as well as the European Commission and other European spirits partners, to get ahead of the game and put up a potential spirits annex to the agreement. That will try to address potential issues head on and put in place the sort of standards that we believe would be appropriate for our sector right across the US and the EU. That would benefit our industry's exports to the US and it would set a benchmark that other trade agreements would then have to reach. The TPP countries are trying to do exactly the same thing. We have to stay ahead of the game and be proactive; that is where we can gain the advantages of the agreement.

Adam Ingram: As I say, the panel represents sectors that will benefit significantly from an easing of trade barriers with the United States or an easing of regulations and the like, but other industries might suffer. I am thinking of the food industry, on which American imports might have a significant impact here. I am astonished that we do not have hard and fast figures that estimate the impact of the agreement on jobs in our indigenous companies.

Allan Hogarth: To be fair, it is impossible to do an impact assessment until we know what the outcome is. If, as we hope, it is a fulsome agreement that reduces tariffs and regulations, the impact could be huge. If it is less ambitious and successful, the impact will be less. Until that outcome is known, the figures are open to severe scrutiny. The figures that have been produced are based on a middle-ranking result, but if we push for a higher standard, the impact will be a lot bigger. I think that it is unfair to expect us to have figures on something on which we have not yet reached agreement.

10:00

David Williamson: As far as the food and drink sector is concerned, there has not yet been a round of negotiations on food and drink issues. We have had seven rounds of negotiation. The expectation is that the first discussion will take place in February next year, so it is all to play for and we need to ensure that Scottish interests are as well represented as possible in the Commission's negotiating position.

Adam Ingram: Okay.

The other aspect is the level of investment in Scotland from US companies. One reason why we seem to attract a fair bit of investment from the US is that those companies want to have a base in the EU so that they can enter the European market. If

we are going to liberalise trade and investment between the US and the EU, is there not a threat of disinvestment in Scotland as a consequence of that?

Allan Hogarth: I think that the opposite will happen. There will be even more reasons for US companies to be based over here, because the opportunities will be bigger. Those companies come to Scotland for many reasons, one of which is that we have a highly educated workforce. In addition, our costs are lower than they are in many other locations across Europe, we have a ready supply of labour and we have good contacts with continental Europe. There could be more reasons for US companies to come as long as we avoid increasing costs on businesses, which some people wish to do. If those costs increased, trying to attract US companies to Scotland could prove more difficult.

John Crawford: Just to build on that point, as I said earlier, 40 per cent of investment in Scotland comes from the US. That compares with an overall UK figure of 26 per cent. That shows the attractiveness of Scotland as an investment location for US companies. Moreover, 40 per cent of Scottish research and development expenditure comes from US companies, so it is incredibly important that the US companies come here—they are creating jobs.

I know that Scottish Development International has helped to secure more than 13,500 jobs from US companies over the past five years. We also have major employers such as Amazon, which employs 3,000 people across four sites in Scotland. Morgan Stanley, which I mentioned earlier, employs 1,200 people in Glasgow and Hewlett-Packard employs 1,400 people in Erskine, so US investment is incredibly important.

I think that there is a strong connection. Scotland is an incredibly attractive place to invest in, particularly for US companies. If there are things that could make that investment easier, surely that is a good thing.

Allan Hogarth: I can give another good example. American businesses are sometimes portrayed as being uncaring, large multinationals that are just over here to take advantage of us before they head back home. However, there is the example of Memex Technology Ltd—a software security company that was based in East Kilbride. It was founded 10 or 15 years ago. It grew to a level at which it became attractive for purchase by a US company, and it was bought by SAS Institute. The number of employees has increased and it is now reaching markets that it never used to reach. That is another example of co-operation working. As long as we have the skills, US companies will come here and create

jobs and opportunities for our people, which I hope is what we are all about.

Scott Johnstone: To be honest, I think that Mr Ingram's concerns are valid but, at the moment, we need to take a sledgehammer to crack a nut when it comes to getting into America—we set up operations in the US just to get a head start on its regulatory process. If there was a harmonisation, we could avoid having to set up those operations.

The reason why US companies would not stop investing in Scotland is to do with the people, the quality and the regulatory framework. We have tried outsourcing our manufacturing to places such as India or even the US. If we look at what happened as a result of NAFTA, the automotive industry in the US tried to outsource a lot of its quality automotive jobs to Mexico. By the end, Mexico had a better quality standard, which is why the manufacturing has been kept there. We could have a parallel situation in Scotland. We could have an agreement like NAFTA, for all its flaws, and, at the end of the day, not only American but global companies would want to be here. Indeed, global companies are trying to locate in Scotland.

The fact that we do not have a notified body to regulate companies in Scotland detracts from our attractiveness. The Scottish Lifesciences Association is looking to have such a body. If we had such a body, that would be another incentive for companies from all over the world to come to Scotland to manufacture well-regulated, high-quality products, which they could then send throughout the world. For example, GlaxoSmithKline has brought back to Scotland all the outsourcing that it sent to India. It is increasing its footprint in its Montrose and Irvine plants. We have been down the outsourcing route and the work is coming back because of the good people we have.

To return to research and development, a lot of the money for that goes into our universities. What is important for me and the universities is that we are training and upskilling graduates so that they have expertise in quality and in the regulatory framework. We have been working with universities such as Edinburgh Napier University and Glasgow Caledonian University to make sure that the graduates who come out have those skills, so that there is a source of such people in Scotland. We are being fleet of foot to make sure that, on quality, we have what the American companies do not really get to grips with.

Roderick Campbell: I will follow up some of the themes to which Adam Ingram has alluded; I will also pick up points that were made in our previous evidence session by Stephen Boyd of the STUC.

I took Stephen Boyd's comments to mean that he was not rejecting the possibility, for want of a

better word, of there being a good TTIP; rather, he was saying that the evidence for that was not currently there. It has also been accepted in evidence before a select committee in the House of Commons in London that the Confederation of British Industry has not done any economic analysis of the impact of TTIP on different sectors.

Mr Boyd said that, even if the model that the European Commission is using is correct,

"it would imply an annual increment in GDP of about 0.03 per cent ... The models that promote TTIP's benefits explicitly do not include those areas in which it could have a detrimental impact on growth and jobs."

Mr Boyd also mentioned patents and the cost of drugs. He said:

"It is very important to remember that TTIP is not a free trade agreement; it is about common regulatory structures. Big pharmaceutical industries will seek to ensure that their patents are stronger, longer and more far-reaching. I think that we know enough about the dissemination of knowledge in economics to know that that will have a negative impact on the wider economy over a longer period, and the models just do not consider such issues."—*[Official Report, European and External Relations Committee, 27 November 2014; c 23.]*

I put that out for general comment and discussion.

Scott Johnstone: I do not think that patents are part of the TTIP agreement. We have dealt with that separately. We have a Europe-wide patent that is incredibly helpful to us.

You are not likely to get the same level of patent cover in the US that you will in Europe, but that is a separate issue. The reason why pharmaceutical companies are looking for increased cover on their patents is, to put it crudely, to cover the costs of developing the new drugs. In contrast with the cost of developing penicillin, the cost of developing some of the newer drugs is into the billions of dollars. Sanofi-Aventis's most recent drug probably cost it about £11.8 billion. For companies to develop new drugs, there must be an incentive that they will get a return. I get that. Any of our smaller drug development companies trying to bring products to market has to work hard to get that patent cover. I do not see the other side of that coin as being of greater economic benefit than having our drugs manufactured in Scotland.

Roderick Campbell: Are we not generally getting one side of the coin—the opportunity side—and not looking at the other side?

Allan Hogarth: The previous evidence-taking session was 100 per cent on the other side of the coin.

Roderick Campbell: Okay, but we are trying to get at what analysis is being undertaken of the impact across the piece. You are presenting a pro-

TTIP side of the coin; I do not get any impression that you have considered the negatives closely.

Allan Hogarth: We have.

Roderick Campbell: Where is the evidence that you can share with the committee?

Allan Hogarth: I will give you some statistics, if that is helpful. If the regulations are removed, which we hope will be the outcome of successful TTIP negotiations, the cost saving to businesses such as Benny Hartop's and others that are represented by the trade bodies here could be £8 billion. That is a lot of money that UK and Scottish businesses currently spend but could save.

David Breckenridge mentioned tariffs. There are tariffs—bizarrely—of 32 per cent on synthetic women's coats and 26 per cent on slippers. The savings of 26 per cent could be huge to the business of Scottish slipper makers, if there are any. Benny Hartop faces tariffs of 16 per cent and might have to be in the ludicrous position of setting up an outsourcing arm in Mauritius—I would not mind applying for the job of helping him there.

The evidence of the benefits that could arise from a free trade agreement is all around you.

Roderick Campbell: What about the analysis of the losers?

Allan Hogarth: I hope, Mr Campbell, that we would rather consider who the winners will be and the jobs in your constituency and those of the other MSPs around the table. The harsh reality of trade is that, for every company that sells something, another does not. Let us try to be in the position in which our companies are making the sales.

David Breckenridge: As a trade body, the Scottish Textile and Leather Association can only consider TTIP from the point of view of what benefits would accrue to its members. That is the approach that we have taken. We have come along to express our frustration at the barriers to growing our business with the United States, which are clear. Benny Hartop has articulated those barriers perfectly well in real terms. His business with a particular customer—Brooks Brothers which, incidentally, is one of the biggest customers for Scottish products in the United States—could grow significantly if the barrier that has been mentioned were removed or, at least, if his business were on a level playing field with other producers outwith the EU.

We can look at TTIP only from that perspective, from which it is all a win. I read the newspapers, as anyone else does, and am well aware of the problems with transparency and American corporations dictating to Governments what their economic policy would be, but I cannot comment on them. That is not for me to do. It is for

economists, politicians and, perhaps, Scottish Enterprise to consider such points. I represent the Scottish textile industry and I know that, if the playing field is at least levelled as part of the agreement, our industry will benefit significantly. That might be a relatively small part of the agreement but, for us, it is extremely important.

The Convener: We understand that.

David Williamson: I agree with what David Breckenridge just said. I represent the Scotch Whisky Association and can give the committee its perspective on what the agreement would mean for the industry.

As I said at the start, it is an unusual negotiation for the whisky industry in that our usual big-ticket items are not on the table. For example, we already have a zero tariff. That does not mean that there is no potential opportunity. Our assessment is that, if the remaining customs border fees that are applicable to our industry were removed, it would save the industry about £4 million a year. Therefore, there is some work to be done there regardless.

I stress that it is easy just to focus on this one agreement, but it is important that politicians look at the wider picture because, if you get it right in the agreement with the US, there will be a significant knock-on impact on other commercially significant agreements that the industry is looking at. We face a 150 per cent tariff going into the Indian market. That is a huge potential opportunity for the whisky industry. We could grow the market share from 1 per cent to 5 per cent in relatively short order if we got the agreement right, and TTIP sets the right sort of benchmark. We need to look from that wider perspective.

10:15

On transparency, our experience has been that there is no lack of willingness on the part of the European Commission, the USTR or the UK Government to talk to stakeholders, to take on board their priorities and to share information. We know the lead negotiator, Mr Bercero, very well. He understands the industry's perspective and is willing to talk to industry. Sometimes, though, we have to go and ask to ensure that people understand where we are coming from. We have been pleased with the opportunities that we have had through a number of avenues. As an industry, we are not shy about asking—that is important, because we cannot always expect people to come to us to hear our views, so we have to take the opportunity.

The Commission undoubtedly recognises that more needs to be done to make the negotiation as transparent as possible, while acknowledging that you do not show all your cards in a negotiation.

Since Commissioner Malmström came into office, she has been absolutely clear that she wants to make negotiating texts available as and when that is possible and when it does not compromise the EU's opportunity to get the best deal possible for jobs and growth across the member states.

The Convener: We have invited Lord Livingston, the Commission and the Scottish Government to future sessions. We are taking a very broad view on the issue.

I will take members in turn, so that everybody gets their shot. Do not fear—you are all going to get in.

Hanzala Malik: Good morning and welcome, gentlemen.

I want to ask David Breckenridge about the codes on his products and the point that our codes are different from codes in the US. Could we not double code our products so that we do not have that problem?

David Breckenridge: I guess that we could, but why would we want to add more hassle? The important thing is harmonisation—that is what we are after.

Hanzala Malik: Yes, but remember that we are dealing with a far bigger partner, and its expectations of us are higher. At the end of the day, who dares wins—who goes the extra mile wins the cherry. I do not think that it is such a huge deal to have double coding, and it would not put you out that much. I just wanted to bring that to you as a small consideration that might be helpful.

The other point that I want to raise is the lack of direct imports of certain products because of taxation. It was mentioned that products have to be sent elsewhere before they can be taken to the US. Can we negotiate something special for Scotland, such as a small trading post? Our cabinet secretary could have a stab at negotiating a tax-free zone for Scotland in its own right. I know that there would be complications relating to what is produced in Scotland and then sent to the US, but various conditions could be attached. For example, there might have to be at least three forms of work on a product before it could be considered to be Scottish for the tax-free zone. Should we have a stab at something like that?

Benny Hartop: We do not want to send products to other countries and nor do we need to. We do it simply to reduce the import tariffs into the States. One of our customers requested that we look into that. We are not particularly interested in doing it, but it reduces the costs to our customer of buying the product from us.

Hanzala Malik: Our politicians could try to negotiate something for our industry. Scottish firms may be manufacturing and treating

something to make a product in Scotland, and in essence it becomes a Scottish product. Just because the raw material came from elsewhere does not mean that all the processes were done elsewhere, so if customers are satisfied that the products are being made for them to a certain standard, would that be considered as a free import? Is that worth pursuing? I do not want to ask our cabinet secretary if you, the experts and the sellers, would not find it helpful, but if you think that there is mileage in that idea, we could try to pursue it.

David Breckenridge: As I said, we are unclear at the moment about quite what is happening. I alluded to a three-processes rule, which you mentioned. That is something that we have become aware of only in the past day or so, and we are not clear about whether it is, in fact, part of the US negotiating position. It is the first that we have heard of it, but it is certainly of concern to us, because it means that raw material that we purchase from outwith the EU is not one of those three processes. It could be a problem for us, but we are not clear on that. What you are suggesting could perhaps be an interesting way to look at it, but at the moment we are not clear enough about what the problem might be, although it is something that we can bear in mind.

Allan Hogarth: I share the view that who dares wins. It would be slightly ambitious for the Scottish Government to start setting up its own separate TTIP negotiation between Scotland and the US, and I think that your efforts would be better spent influencing the current negotiations rather than trying to establish a new trade agreement.

David Williamson: I certainly admire the ambition of Mr Malik's idea, but in reality it simply will not happen in this negotiation. Remember that the deal will need to be ratified by 28 different member states. Twenty-seven other countries will be looking at it and thinking, "Why not us?" Even for the EU, that is unrealistic, given our own negotiating position. At the same time, there are TPP partners in the Pacific rim that would be looking at why some terms were like that for one particular part of the EU and not for the countries in the TPP negotiation. In the context of the negotiations, I do not think that such a suggestion would run very far.

You must also understand the US mindset. At the moment, if you are importing products, you have to deal with bioterrorism laws and food modernisation legislation, and there are 50 different US states to deal with at a sub-federal level. When you put all of that together, it is a complex playing field, and adding a Scottish dimension to that with some sort of tax-free zone would be unrealistic.

Hanzala Malik: If you look around, there are examples of such arrangements. Some countries in south Asia have been given preferential treatment to allow certain products, particularly cotton, to come on to the European market. We can piggyback on to examples of trade agreements from around the world. I agree with what David Williamson says about trying to influence the current negotiation, but perhaps we can think outside the box and see how we can improve on that.

We are a quite specific and limited market, but we are specialised, and that opens up the idea of thinking about how we can speak to our major trading partners to ask them to look at us in a slightly different way, to ensure that we can continue to supply the quality and the specialist products that they are looking for, while also giving us the opportunity to compete with others. We are not competing like for like; we have something quite unique to offer, so if we go regularly to the US to market Scotland and its products, perhaps we should go the extra mile ourselves. We know what is on the table just now, and it is what the whole crowd of us are dealing with, but even if nothing happens today, the fact still remains that if we want to open the door we have to start somewhere.

The Convener: The Scotch Whisky Association might be in the best position to appreciate that the Department of Trade and Industry could be very interested in Scotland going its own way in such things, given that the regulation and the legislation are reserved to Westminster. We should put that in context.

Scott Johnstone: I am happy to explore the idea with the cabinet secretary. It is a challenging proposition, but why not?

On the medical device side, we have a good relationship with Minnesota, which is probably the world-leading place for medical devices, and certainly the US leader. We have had fruitful discussions over the next Ryder cup, for example, which is being hosted by Minnesota. We spoke to Alex Neil, who was the health secretary at the time, to see whether we could have some sort of delegation to meet the Minnesota Government and industry representatives to discuss closer working together. That suggestion was welcomed and we are now in an even stronger position, given that Nicola Sturgeon will be at the next Ryder cup for the handover ceremony. It is a good opportunity.

It is challenging in terms of where we are regulated in Europe, with the Bank for International Settlements and other issues. There is certainly an openness from the US side to have discussions on how we could work more closely together.

One aspect of those discussions is our work with the national health service, with which we work very closely. We are very aware that the NHS is a big issue for TTIP, but it is not the same issue for us in Scotland, because we have a good relationship on developing products for the NHS that shift the balance of care and reduce costs. We are not interested in the privatisation of the NHS in Scotland from an industry point of view, and indeed, we would probably support the Scottish Government in fighting against that, as part of the agreement.

The Convener: Philip Hammond has said that Scotland should seek an express opt-out for its NHS services. That is something that the committee and the Scottish Government will pursue very vigorously.

Scott Johnstone: It is doable. The Nicholson review came out with a set of recommendations which as far as I know, NHS Scotland did not have to implement. Indeed, we have gone down a different route in Scotland, under the health innovation partnership banner, where industry and the NHS work closely. The NHS helps industry to develop products that will be of use to the NHS and industry comes to the NHS to find out what kind of products it needs. We began that process after the statement of intent that Nicola Sturgeon made at the NHS conference in 2012. We now have 55 companies working closely with the NHS and developing products for the NHS. Those products will be bought by the NHS and, although the NHS will not be the biggest customer by a long shot, the fact that the NHS is buying Scottish manufactured products will be a huge selling point.

Touch Bionics, for example, is a company that makes the bionic hand, which it sells mostly to the US. Having never previously sold to the NHS in Scotland and to its home market, it has now sold six bionic hands through the new partnership.

David Breckenridge: If Hanzala Malik's suggestion were possible, that would be great. However, I agree with David Williamson that it would be very unlikely to happen because it would be hugely complex to achieve. From our point of view, the simpler step is to get that level playing field, which is really important and something that we need. We must get our competitive position, relative to producers from outwith the UK, on to a level playing field and remove the barriers that currently exist.

Those are technical things, but they should be part and parcel of any negotiation of this kind and, if our European negotiators are strong enough, I would like to think that we will get the result that we need. That seems a much easier and more obvious approach, in a way—although I do not think that it will be easy. I hope that it is

achievable. That is the central thing that we wish to see.

10:30

The Convener: Mr Crawford, did you want to make some general comments?

John Crawford: I will make a couple of points about the previous conversation on the fact that there are not only opportunities but challenges. The various national bodies that are responsible for the economy—Scottish Enterprise, the Scottish Government and Highlands and Islands Enterprise—will work very hard with all the industry sectors that are implicated, not just those that are represented today but the energy, oil and gas, chemicals and creative industries, and with the national institutions. Once we get into the sector negotiations, discussions and agreements, we will look hard at what is happening and what the implications are. We will ensure that we are playing to Scotland's advantage.

I was speaking to a couple of managing directors of companies that trade with the States. That brought home to me that, although the US is Scotland's biggest export market and many Scottish SMEs are keen to export there, it is a complex market. There are more than 300 million people and 50 states, each with its own regulatory framework. It is a complex market for a company to get into if it is not aware of the issues, so anything that can help with the journey into that market would be welcome, particularly for Scotland, which has a broad base of SMEs, the vast majority of which have 10 employees or fewer. It is important that we work with our company base to get into that market. Scottish Development International has five offices in the US, so we have the channels there.

Yesterday, I spoke to a company MD who said that the US has a sort of buy-American policy. Therefore, we need to do anything that we can to help companies to drive a unique selling point—that is the big differentiator. If the US has an equivalent good or service, people there will not really look at a foreign one. However, if a product or service genuinely has a unique selling point—as niche products such as whisky or luxury textiles do—that gives a real competitive advantage. That is the big win.

As I said, we have to get more Scottish companies from our SME base internationally active. We are not internationally active enough as a nation. We reckon that, just to get to UK export level, we need around 5,000 SMEs to be internationally active, so we have a big task on our hands. The US is our biggest export market, so anything that can enable trade and investment on

both sides and make commerce easier is to be welcomed.

Allan Hogarth: Scott Johnstone made a point about Scottish companies, including one that is health related. Craneware is a technology company that is based in Edinburgh but whose sole customer base is US hospitals—it provides only to the US health service. We have heard lots of ill-informed comments about dangers to the NHS from TTIP, but that is an Edinburgh company that is doing business with the US health service, which is worth thinking about. It employs people and creates taxes to pay for services in Scotland.

We also have Skyscanner, which is a travel-based technology company that started in Edinburgh. Six people started it up next to the University of Edinburgh, because of the excellent graduates that the university produces. Now it has an office in Miami and has taken on Kayak, which is another travel technology business, in the Americans' back yard.

Lastly, we have FanDuel, which is a sports gaming business that is based in Edinburgh and has grown across to the US. That backs up John Crawford's point. Scottish companies have the USP technology that can take them forward, but they need support, which TTIP can help to provide. They also need to avoid costs increasing, which policy makers also have to consider.

Hanzala Malik: Just on that point—

The Convener: I am sorry, but lots of members want to come in. Please let me know if you want to come in. We want to have a free and flowing conversation, but many members and witnesses want to come in.

Jamie McGrigor has been waiting for a while.

Jamie McGrigor (Highlands and Islands) (Con): I am sorry that I was not here at the start, convener.

On John Crawford's point, the Scottish North American Business Council explained that it had organised two road shows in Scotland, the key lesson from which was about the potential benefits for SMEs. The message concerned the fact that, the smaller a company is, the more the huge obstacles in doing business with the US will get in its way.

The committee has received evidence from stakeholders that there is a lack of awareness across the Scottish business community about the TTIP negotiations. Last week, I went to a breakfast briefing from one of our largest banks. When I asked about TTIP, I found that the people giving the briefing had not heard of it, which I thought was rather astonishing. In that context, I have a question for John Crawford. What is going on to make Scottish businesses more aware of TTIP?

You said that you need another 5,000 SMEs to get involved in what is going on. We are possibly nearly halfway through the negotiations. Is enough being done to make people here aware of the opportunities for businesses from the agreement?

John Crawford: As I said, it is really important that the national agencies, alongside industry channels such as the Institute of Directors, the Confederation of British Industry, the chambers of commerce and the business gateways, collectively ensure that there is a better understanding across the sectors of the implications for our companies. That is a challenge. Most of our Scottish companies are small and medium-sized enterprises, so we absolutely have to work those channels, not only with regard to TTIP but with regard to ensuring that they are more internationally competitive. That is about the only thing that can really improve the Scottish economy.

The Convener: I should point out that we asked representatives of the Scottish Chambers of Commerce to talk to us today, but they said that they were not in a position to have enough information to give to the committee. There is maybe a job of work to be done in that regard. We got written evidence from the CBI, as well.

Jamie McGrigor: Independent studies have suggested that EU exports to the US would increase by 28 per cent each year as a result of a good TTIP agreement. They also predict that the UK economy would be given a boost of £10 billion each year—I think that the figure for Scotland was something like £1.7 billion. Given that EU exports would increase by 28 per cent, why would the UK benefit by only £10 billion? Surely, the figure would be an increasing one, would it not?

Allan Hogarth: As I said earlier, it is hard to give precise figures. However, the reality is that, if there were an increase in exports at that level, the increase in benefits to Scotland and the UK would be significant. That is as far as I would go.

Jamie McGrigor: We have talked about benefits to businesses, but I would like to address the possible benefits to consumers in Scotland as a result of a good TTIP agreement. Could our witnesses say something about that?

Allan Hogarth: The benefits to consumers would be that American goods in the retail market, which is thriving, could, we hope, be cheaper, and that those who go on holiday to the United States could buy Benny Hartop's jumpers and other goods from Scotland there at a much more reasonable price than they can currently.

Willie Coffey: Good morning, panel. Some precise figures have been shared with us today. David Williamson and Benny Hartop have mentioned duties of as much as 16 per cent. Allan

Hogarth mentioned a potential saving of £8 billion. If such savings are realised, I am certain that that is to be welcomed, but there is a quid pro quo with TTIP, is there not? What is America getting out of it? Presumably, it is also looking forward to harmonisation of regulation and the reduction of tariffs, perhaps to zero. I suppose that my question, from a naive point of view, is why it has not been possible to do that before now, without having to invent this thing called TTIP. If it has always been possible to do it, why did we wait so long?

A concern expressed at one of our previous evidence sessions is that, on the back of TTIP, guaranteed and legal access is being provided to our products and services in the European Union.

My first question, then, is what is America getting out of TTIP that it could not have got before now? Secondly, are the fears genuine about giving legal access to services within the EU that hitherto may not have been available?

Allan Hogarth: What is America getting out of it? It is getting the opportunity to sell its goods more easily into the EU. Many US companies are already based here. We should not forget that companies that are based here—such as the SAS Institute, which has purchased a Scottish company and grown it, Morgan Stanley and HP—are more likely to remain here.

The harsh reality, as we saw in the 1980s, is that some companies that invest in Scotland leave when the economic climate changes. If the changes are introduced, that will be less likely to happen, which is good news for your constituents and the Scottish economy. It will free up trade both ways, so that Scottish businesses can sell into the US. What is in it for the US is greater access to the European market, which creates supply-chain jobs for the businesses that US companies are looking to invest in and creates opportunities for employment and growth in Scotland.

Willie Coffey: Will all that come about through TTIP? Harmonising regulations and reducing tariffs were always on the agenda. What, then is the big gain or the big win for the US in agreeing a TTIP arrangement with the EU?

Allan Hogarth: It is difficult to achieve those harmonies without having some kind of trade agreement running alongside. They are not as easy to achieve as it sounds. Over the decades, many trees have died in the cause of trade agreements.

On your point about the legal challenges, since 1975, the UK has negotiated 94 bilateral treaties, almost all of which included investor-state dispute settlement provisions. UK investors have brought at least 43 ISDS claims to protect their investments. No ISDS challenge has ever

succeeded against the UK. At the committee's previous meeting, ISDS was raised as some great bogey that would allow businesses to attack democratic Governments, when the harsh reality is that ISDS is used in the other direction. ISDS is there to protect businesspeople such as Benny Hartop who face harsh treatment from Governments. That is sometimes forgotten by those who are opposed to ISDS.

The Convener: Mr Williamson, you could come in here, because your industry has battled with tariffs for years. Maybe you could give us an insight into what has happened so far.

David Williamson: I have lived this for a long time, Mr Coffey. It is a really interesting question.

To say why it has not happened before, we have to look back at the context. It has not happened in recent years because of an economic recession. During economic recessions, rather than looking outward, for example at trade liberalisation, industries become more protectionist. Beef hormones, Airbus and Boeing have been the subject of huge trade disputes between the EU and the US. There was no way of starting the sort of negotiation that we are having now until such issues had been resolved or at least parked in some way. The context has gradually changed, which is why there was an opportunity to do something.

Regulatory approaches do not make headlines, but the difference in regulatory approaches between the EU and the US should not be underestimated. Getting regulators round the table to look at the issue is a long-term piece of work. People are protective of their patch and their approach. That is why the whisky industry has tried to look at the issue slightly differently by putting up a joint proposal with our colleagues in the American spirits industry. They have spoken to their regulators about it and we have spoken to the Commission, in an attempt to cut our way through it. It is very difficult. Even within a category such as whisky or the wider spirits industry, there are different interpretations and approaches. Although regulatory coherence may not gain many headlines the day after the TTIP negotiation is concluded, it is a prize.

Willie Coffey: So you do not share the concern about guaranteed access to our markets and services.

10:45

David Williamson: I can speak only from a spirits industry perspective. On the US side, TTIP will not dramatically increase US companies' access to the European market. Similarly, as I said, it will not dramatically increase Scottish

whisky exports to the US. For us, it is about a bigger picture.

The US is looking at making labelling certification and testing easier throughout member states and not just in the UK. In the same way, we would like a more harmonised approach in those areas throughout US states, as well as at the federal level.

Scott Johnstone: On the regulatory side, I guess that the concern is that this is a race to the bottom, in that standards will be lowered and the US will move us to a framework that is less regulated and in which quality is lower. I am pretty sure that that will not happen. Regulatory change is difficult for us at any stage. We are going through some major regulatory uplifts in the regulation of medical devices and in vitro diagnostics. That has primarily come about because of the PIP implants scandal. It is unlikely that the European Union will lower those hurdles. If anything, US companies will have to raise their game if they want to deal in Scotland.

Will they be able to do that? Having lived in the US, I know that that will be tough for them. It would be much easier for them to get a footprint in Europe to start manufacturing their products to those higher regulatory standards. That is the potential downside for the US and why companies there might not be that interested. They will not be able to sell their products into Europe unless they comply with those new regulations.

On access to public services, we all know that it is very difficult to access the NHS, for a US company or a local company, and I do not think that that will change. I have worked with the NHS for several years. Companies will not be able to sell unless they meet the highest possible regulatory standards. That will be of benefit to us. If we push the US on that issue, it might just walk away from the table and say, "We'll just keep doing what we're doing." That is fine, but we might lose out on some of the tariff changes.

The Convener: One of the concerns that has been raised with the committee is that there would be a race to the bottom on regulation, with the lowest of standards rather than the highest. Are you saying that the opposite is true?

Scott Johnstone: It would be the highest of standards. As an industry, we will not lower our regulatory regime. The US is a highly litigious environment and it would be very difficult for a hospital to take a product of lower standard if there is a more highly regulated product out there. If something went wrong, the hospital would be sued. That is of benefit to Scottish companies and an opportunity for them to get into the US. That is why we are keen to go over to Minnesota. We will be able to give US hospitals products and say,

"Here's something that will not get you sued." Craneware is a good example of that.

Willie Coffey: On that point, Dr Arianna Andreangeli told the committee in evidence that the European Union does not have any competence in health-related services and, because of that, the risk does not come from TTIP. She said that, if there is a risk of providing access to UK health services, it is a risk over which the UK Government has most influence. That was my understanding of what she said. The European Union does not have the competence to give away access to UK health services as part of a TTIP agreement.

The Convener: That competence is retained by member states and is not conferred to Europe.

Alex Rowley: A different way to come at the subject is to ask what is in it for the US. Scott Johnstone talked about the US walking away if we stick hard and fast to regulation in some areas, which, as David Williamson says, may be important for particular sectors in terms of tariffs. We need to know whether more analysis needs to be carried out—it may be more for John Crawford and Scottish Enterprise to do that—into what key sectors are exporting to the US and what key sectors would be influenced by the TTIP.

You talked earlier about American companies that are based here, and Amazon is perhaps not the best example if we look at its employment standards. The STUC raised the issue of a race to the bottom and zero-hours contracts. In Dunfermline right now, people are glad to be working and to have an income of some sort coming into the Christmas period, but that is not the type of economy that we want for Scotland in the future. Surely, we want a high-skilled, high-wage economy.

I cannot help but think of what happened a decade ago, when politicians were lining up—as were others—to talk about the light-touch regulation that we needed in the financial sector. We then had a global economic crash, and suddenly politicians were being blamed for that light touch.

Those are issues to consider in the context of regulation. For me, it comes back to the question of the transparency not only of the negotiations themselves—although that is important, and David Martin and other MEPs who we took evidence from a few weeks ago said that greater transparency is starting to come through—but of the whole agreement, which is raising concerns as the public are starting to become more interested in it. I hope that the work of this committee, through taking evidence from you and others, will bring greater transparency and understanding of what the agreement is about.

Allan Hogarth's submission talks about significant benefits to companies on both sides of the Atlantic providing a major boost in jobs and growth. My glass is always half full, but I think that we need something more that takes the benefits a bit further. You talk about "raising global prosperity", yet, right across the globe, we have widespread inequality, deprivation and poverty, and America is perhaps one of the most unequal countries in the world. People across Europe are starting to speak out about the levels of inequality that exist, so we need evidence to start backing that up. It cannot just be—

Allan Hogarth: Motherhood and apple pie—I appreciate that.

As I said earlier, the evidence shows that the reductions in tariffs will allow trade to flow more freely, which will benefit exporters in Scotland. Reductions in regulation will reduce the duplications in costs for companies that currently have to comply with European regulations and are then put off by the costs of going across the Atlantic. As John Crawford mentioned, it is a big step to set up a business in the US. It is quite daunting to do that, and if a business faces increased costs or new regulations it might put it off.

Unfortunately, if we look at the current economic picture, the harsh reality is that challenges are being faced in Greece and other parts of the EU where economies are showing evidence of further slowdown, whereas, thankfully, the American economy continues to grow apace. The TTIP gives us opportunities to take advantage of that growth. As David Breckenridge mentioned, Scotland has built up great historical links with the US, and the opportunities exist to build on those links. The TTIP can help to achieve that. The issues that are being raised are more about equality and areas such as that, and a trade agreement is not, by any stretch of the imagination, going to tackle those issues.

It is interesting to consider why the Canadian trade agreement has not received anywhere near the same level of attention as the US-EU trade agreement. On 10 January, Glasgow City Council is hosting a dinner to commemorate the 200th anniversary of the birth of John Macdonald, the first Canadian Prime Minister, and the Canadian foreign ministers are coming to try to push the benefits of trade between Scotland and Canada. It is a shame that the TTIP has been criticised unnecessarily.

Alex Rowley: What about the regulation? Do you think that we are looking at more light-touch regulation?

Allan Hogarth: Scott Johnstone made the point that there will be the highest level of regulation.

There will not be a rush to the bottom; high regulation will be maintained so that consumers have confidence in products. We would have a transparent consumer who is very concerned about what they buy. I do not see evidence that there will be a rush to the bottom. Regulations will be maintained at a high, vigorous level, especially in the US, which, as has been mentioned, is a very litigious society.

The Convener: In your written evidence to the committee, you raised issues around the investor-state dispute settlement mechanism. The committee has received lots of evidence, even just on our Twitter feed, of grave concerns about that. You say in your evidence that it is a way to protect and ensure that businesses are not discriminated against with changes to legislation and regimes in the host state, for instance.

In the Egyptian model, the Egyptian Government increased the living wage—this is maybe where Alex Rowley was coming from—and then became subject to a challenge on that and the costs related to it. How do you marry up the two ideas that that mechanism is a good thing that protects people, but when a state takes action, such as in bringing up its minimum wage to a better level, that has an impact on that state?

Allan Hogarth: Earlier, I made a point about the figures in the UK. Not one case against the UK has been found against us, and 43 cases have been taken successfully by UK companies that have faced harmful changes to regulations that would have impacted on their business and jobs. I do not think that, because one business has taken action against an Egyptian Government, the whole notion should be ruled out of hand and overinflated fears should be given currency.

The Convener: I very much take that on board, but let us say that, following the Smith commission, the Scottish Government eventually negotiated the ability to change the minimum wage to a living wage. Would that make us subject to something like the Egyptian situation?

Allan Hogarth: That is unlikely because, with all due respect to the Egyptian economy, you are not comparing like with like. The Scottish economy is a mature economy with good standards of pay and good working conditions. I take Alex Rowley's point about zero-hours contracts and such issues, but by and large we have a well-regulated workforce and action is in place. It is highly unlikely that that kind of action would be seen in Scotland.

Alex Rowley: I know that David Williamson wants to come in, but I want to pick up a point with John Crawford. Can Scottish Enterprise do a much more detailed analysis and give the committee more information about the companies

that trade in America and the likely benefits that there will be? It is about the threats, as well. There is opportunity, but there are also threats. What are they?

John Crawford: I absolutely agree. We need to undertake with our partners in industry a robust economic analysis of the opportunities and challenges as a result of the process. We should definitely do that with our partners.

We have great examples of Scottish sectors that export to the States. In financial services, Aberdeen Asset Management, Martin Currie and Baillie Gifford are out in the States. In energy, Aggreko has significant operations in North America. The Weir Group has 80 operations in North America, where it employs 4,600 people. The Wood Group's US operations, with 34 per cent of its global headcount, are the largest. In food and drink, the Edrington Group has five locations in the US. Albert Bartlett & Sons is making deals on its rooster potatoes, and there are small companies such as Smarter Grid Solutions.

Across the sectors, Scottish companies of all sizes are doing well and are actively trading in the States.

Alex Rowley: You mentioned energy, which raises a point. Shale gas seems to have a major influence in driving the American economy, driving down oil prices, and certainly finishing the coal industry in this country. I do not think that the regulation of shale gas in America is up to the standards that are being talked about if shale gas proceeds in this country. Is that an example of where there is a threat, with American companies wanting to get in on shale gas here while we have much tougher and tighter regulation? Is that an example of conflict?

11:00

Allan Hogarth: I doubt it. For example, the Weir Group, which John Crawford mentioned, is heavily involved in supplying into the US shale gas boom. Scotland and its engineering and manufacturing sectors are benefiting from that boom, and we as consumers are benefiting from it in the form of reduced petrol prices. I think it highly unlikely that there would be a change in regulation to allow a flood of US companies to come into Scotland and take out whatever shale gas exists here.

David Williamson: I want to make a general point about an issue that has been touched on a couple of times. Part of the challenge is that negotiations are still going on and we do not actually know what the end point will be. Understandably, that is giving rise to questions and creating uncertainty.

I think, therefore, that it is worth studying the agreement between the EU and Canada. Because of TTIP, that got over the line and has set the benchmark for what a next-generation free trade agreement will look like. TTIP will end up in the same sort of area and might even go further than the Canadian agreement, so it is certainly worth taking the time to understand the Canadian agreement in order to understand what might be in TTIP if negotiations come to a conclusion. As far as regulation and standards are concerned, the Canadian agreement was more about levelling up than anything else.

The Convener: We have had a briefing from our very helpful Scottish Parliament information centre people on some of the other trade agreements, but your drawing attention to the Canadian agreement is also helpful.

I am conscious of the time and the fact that we have to finish this session and get on with other business, but does anyone have any final comments or questions?

Roderick Campbell: I just wanted to follow up on the issue of ISDS, convener. What do the panel think of David Martin MEP's suggestion in evidence to us that it might be possible to have TTIP without the ISDS provisions? Is ISDS such a fundamental part of the agreement, or could it be removed?

Allan Hogarth: I think that that would be unlikely for the reasons that I outlined earlier. Businesses want that mechanism to protect themselves and their workers and to avoid any regulatory changes by Governments that would negatively impact on them.

The Convener: Are there any final points?

Hanzala Malik: Someone asked earlier about why the US would be interested in us. It is quite clear that such companies would be guaranteed quality, a workforce with reasonable working hours and conditions, and health and safety provisions that ensure that they and their retailers would not be prosecuted in the courts. We give them something very valuable, and they do the same for us. The US wants to trade with Europe because it wants to safeguard its citizens, and we intend to provide those safeguards.

However, it works both ways, and we in Scotland must ensure that we provide something unique and special. It is not just about whisky; we have Arran cheese, yoghurts and so on. We can provide stuff that no one else in the world can provide. If I as a layman can recognise that, I am sure that the international business community, too, will recognise it. I am hearing a greater call for us to press home that message and find ways of enhancing our trading position over there. We are liked over there—after all, we are their cousins—

so we should deal with them on that basis. Let us not say that things are too difficult and complicated; instead, we should be facing up to such challenges.

The Convener: I should add to that by pointing out that the Scots have always liked a good deal. However, we are rather canny, which is why the committee is looking at every aspect of the agreement. As you will understand, over the summer we were lobbied very heavily on the negative elements of the process, and I have found it very valuable to hear about the possible opportunities as well as some of the pitfalls. Your experience and input will be very important in informing the process.

This inquiry will continue well into the new year, and we will be very keen to hear from you if you have any additional information or if you know anyone in your sectors or wider than that who might have something peculiar or a different perspective that might inform our process. That would be extremely helpful. I should also give Scottish Enterprise a gentle prod by saying that it has some homework to do, and we look forward to seeing that in the near future.

Thank you very much for your involvement in this session, and I hope to hear from you in future. We will now move into private session.

11:05

Meeting continued in private until 11:28.

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e-format first available
ISBN 978-1-78534-527-2

Revised e-format available
ISBN 978-1-78534-540-1